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DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
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First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

December 14, 2004

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Governor's Letter to the President

On December 8, 2004, Governor Schwarzenegger sent a letter to President George W. Bush to bring to his attention the many areas of critical importance to California, as he prepares his budget for the 2006 fiscal year. Of particular interest to the County, the Governor requested support for the State's proposed hospital financing waiver, increased funding for the State Criminal Alien Assistance Program, and replacement of the current distribution formula for homeland security to adequately fund California. Attached is a copy of the letter for your reference.

Little Hoover Commission Report – Historic Opportunities: Transforming California State Government

In anticipation of formal State reorganization proposals, the Little Hoover Commission conducted three public hearings to explore the framework of the organizational recommendations offered by the California Performance Review (CPR). In particular, the Commission focused on the CPR recommendations related to the creation of super-departments, centralization of administrative functions, and reduction in the reliance on boards and commissions. The Commission consulted with experts, and analyzed reform efforts in other states, the Federal government, and in other countries.

On December 10, 2004, the Commission released its report which is available at <http://www.lhc.ca.gov/lhcdir/176/report176.pdf>. Rather than addressing the merits of specific CPR recommendations directly, the Commission focused primarily on the process needed to successfully transform State government. In the Commission's view, the role of the Governor is critical, and the following components are essential for a successful reorganization:

1. **Leadership must be forceful and sustained.** The Governor must persistently push reform and designate an experienced manager to lead the reorganization effort and leverage the talents of the cabinet, the Legislature, the State's workforce and the public to bring about meaningful lasting improvements.
2. **Goals and purpose of reform must be clear.** The Governor must define the goals of reform and translate those goals into meaningful, desirable outcomes for Californians.
3. **Strategic priorities should be established.** The Governor must designate his priorities and enlist the support of the Legislature, starting with those reforms that are both possible and that will produce meaningful improvements. Not all reforms can be pursued at once.
4. **Productivity and performance are key.** The Governor must focus reform efforts on improving the performance and productivity of State programs. The long-term value of transformation is to make progress toward desired goals with the same or fewer resources. In this regard, the Commission seemed to suggest that it might be best to begin by improving the management of State government through reforms in budgeting and financial management, management capacity, human resource management, business services, and information technology.

The Commission also addressed the CPR recommendations to consolidate internal management functions into an Office of Management and Budget (OMB), and eliminate or reevaluate the needs of several boards and commissions. While the Commission did not judge the merits of a new OMB office, it concurred with the CPR that improving these functions individually, and coordinating activities strategically, could improve the capacity of State agencies to pursue their missions.

The Commission also recommended that before determining the fate of specific boards and commissions, criteria should be established to allow policy-makers to make consistent, rational decisions. The initial goal should be to determine which boards are needed for a 21st century government, and the long-term goal would be to create a periodic evaluation process to determine whether specific boards should be continued or changed to best contribute to an accountable, effective government.

The report was submitted to the Governor because the Commission believes restructuring is essential to improve performance, ensure the State operates within its means, and to restore public trust in government.

Senate Select Committee Hearing on the California Correctional System

On Thursday, December 16, 2004, the Senate Select Committee on the California Correctional System, which is chaired by Senator Gloria Romero, will hold a hearing regarding Foreign Nationals in California Prisons. The hearing is scheduled from 10:00 a.m. to 2:00 p.m. and will be held at the Metropolitan Transit Authority building, One Gate Plaza, in Los Angeles.

We will continue to keep you advised.

DEJ:GK
MAL:MR:ib

Attachment

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants



GOVERNOR ARNOLD SCHWARZENEGGER

December 8, 2004

The President
The White House
Washington, DC 20500

Dear Mr. President,

As you work to prepare your budget request for the 2006 fiscal year, I would like to bring to your attention some of the many areas of critical importance to California. It has long been documented that California sends tens of billions of dollars more each year in federal taxes to Washington than the federal government sends back to help cover programs and services for the citizens of California. One of my goals as Governor is to work with your Administration and the State's Congressional delegation to increase California's share of federal funding. The following items represent important first steps in helping to alleviate the severe imbalance of payments that California's taxpayers experience in the federal budget.

We must all work together to strengthen the federal-state partnership that provides health care to millions of Americans. California continues to struggle with spiraling Medicaid costs and our health care safety net is under severe pressure. It is our goal that the proposed hospital financing waiver we are currently discussing with your Administration can be fully supported within the federal Medicaid baseline. The waiver would provide fiscal stability to the State's health care safety net and lay the groundwork for further Medi-Cal reforms that will improve access and quality of care while delivering services in the most efficient manner.

This partnership will be under additional pressure upon implementation of the historic Medicare Modernization Act. States will be full partners in the success of implementing the program for large segments of the population and will need sufficient resources to ensure success. While California strongly supports the idea of Medicare taking a more prominent role in supporting the prescription drug costs of the dually eligible, the current model being considered by the Center for Medicare and Medicaid Services (CMS) may end up costing California hundreds of millions of dollars in new costs annually. The calculation of this "claw back" amount is currently being interpreted by CMS in an overly strict manner and disadvantages the states. It is our hope that the President's

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Budget fully supports the use of the most recent and reliable data from states regarding drug-rebate collections, judicial settlements and other cost containment efforts that would be missed by the current federal proposal.

Another area where California is significantly underfunded by the federal government is homeland security. I strongly support your efforts to replace the current distribution formula with a threat-based formula. The current formula disadvantages states like California that face significant risks of terrorism because it does not take into account high-threat areas, critical infrastructure or population density. I look forward to working with you to help make this change possible.

Additionally, since September 11, 2001, the federal government and states have made a significant investment in local public health and hospital preparedness to enhance response capabilities in the event of a bioterrorist or chemical attack. It is critically important for California that the federal government maintain its funding commitment for state and local preparedness.

Requesting funding for the State Criminal Alien Assistance Program (SCAAP) would be an important and welcome step by your Administration. As you know, SCAAP partly compensates states for the cost of incarcerating criminal aliens. California currently bears a burden in excess of \$750 million annually to house criminal aliens, yet only \$305 million was provided for the entire program in the current fiscal year. While additional resources to stem the flow of illegal aliens into our country are welcome, I urge you to support the states that must bear the significant burden of incarcerating criminal aliens.

This year, Congress reauthorized the CALFED program after careful negotiation among the many different groups who have strong interests in this project. CALFED commits the federal government and State of California to providing a reliable supply of water for urban and agricultural uses while enhancing environmental conditions, especially in California's Bay-Delta area. The continued support of your Administration is critical to the ultimate success of this project and I request that you seek funding for CALFED in your budget submission.

Your FY06 budget request also presents an opportunity for you to address the deferred maintenance needs of national parks in California; to provide sufficient resources to conduct effective fuels treatment on both federal and private lands; and to increase funding for the Clean Water State Revolving Fund. These are programs important to the people of California and to the preservation of critical parts of our natural environment.

During your first term, you made an important contribution to the future of energy use in the United States by recognizing the great potential of hydrogen. I encourage you to invest in the construction of the Hydrogen Highway by funding the Department of Energy's million fuel cell vehicle demonstration and validation project and other hydrogen research and development programs. Funding allocated to California will help support the State's efforts to begin the transition to a hydrogen economy by building the first network of hydrogen fueling stations available for public use.

Your support of the National Ignition Facility (NIF) at the Lawrence Livermore National Laboratory is commendable. For FY05, Congress made reductions of more than \$25 million from your request for NIF. I hope your strong support for this program will continue by requesting funding sufficient to put the project back on schedule. This will require an increase over the originally anticipated FY06 level of nearly \$353 million, but it is necessary to ensure the timely completion of this project and the beginning of the valuable research and experimentation that will be performed at this facility.

Finally, education remains a high priority for us both. Providing California students with a safe place to go after school is one of my highest priorities. I would like to request that you increase funding for the 21st Century Community Learning Centers (21st CCLC). Increased support for after-school programs is necessary if the United States is going to be able to successfully close the achievement gap and ensure a strong future for our nation.

While meeting students' after school needs is essential, it is also critical the Administration increase Title I grants so that at-risk students receive a world-class education. Increased funding for this program provides economically-disadvantaged students with the education they deserve and will aid California in meeting the goals of the No Child Left Behind Act.

At the level of higher education, reinforcing our national commitment to research can be achieved by improving the funding for California's research universities – premier institutions recognized throughout the world for their excellence. An increased financial commitment to these institutions will benefit a broad range of needs in our nation now and into the future.

As you work to complete your budget for fiscal year 2006 I know that you will continue to work closely with the Congress and the nation's governors to build upon your efforts to strengthen the economy. I applaud the success you were able to achieve in this

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undertaking during your first term, and I am confident your second term will show even more progress in restoring our nation's prosperity.

Thank you very much for your consideration of this request.

Sincerely,

A handwritten signature in black ink, appearing to read "Arnold Schwarzenegger", with a stylized flourish at the end.

Arnold Schwarzenegger

cc: California Congressional Delegation